

**Manning Municipal Gas Department
Independent Auditor's Report
Basic Financial Statements and
Schedule of Findings**

December 31, 2010 and 2009

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**Manning Municipal Gas Department
Officials
December 31, 2010**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Ehlers	Chairperson	June 2013
Randy Facile	Secretary	June 2014
Dixon Cole	Trustee	June 2016
Keith Kelderman	Trustee	June 2011
Allen Rix	Trustee	June 2012
Kenneth Spies	Manager	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

February 10, 2011

Independent Auditor's Report

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To the Board of Trustees
Manning Municipal Gas Department
Manning, IA 51455

I have audited the accompanying basic financial statements, listed as exhibits in the table of contents of this report, of the Manning Municipal Gas Department (a municipal utility) as of and for the year ended December 31, 2010. These financial statements are the responsibility of the Manning Municipal Gas Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

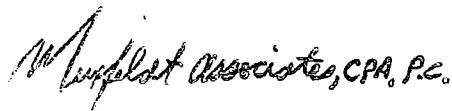
As described in Note 1, the financial statements of Manning Municipal Gas Department are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the City of Manning, Iowa, that is attributable to the transactions of the Manning Municipal Gas Department.

February 10, 2011
Manning Municipal Gas Department
Independent Auditor's Report

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Manning Municipal Gas Department at December 31, 2010 and the respective changes in its financial position and the cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards* I have also issued my report dated February 10, 2011, on my consideration of the Gas Department's internal control over financial reporting and my tests of its compliance with certain provisions of law, regulations, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management's Discussion and Analysis information on pages 6 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. I have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

 Murphy & Associates, CPA, P.C.

**Manning Municipal Gas Department
Management's Discussion and Analysis
December 31, 2010**

The management of Manning Municipal Gas Department offers this narrative overview and analysis of the financial activities of the Utility for the year ended December 31, 2010. Management encourages readers to consider this information in conjunction with the Utility's financial statements, which follow.

Financial Highlights

Both revenues and expenses decreased by 24% from the year ended December 31, 2009 due primarily to declining natural gas prices and customer volume of usage. Net assets decreased by 0.08% or \$2,784 for the year ended December 31, 2010. Cash increased by \$35,913.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Utility's basic financial statements. The Utility's statements consist of 1) basic financial statements and 2) notes to the financial statements.

The financial statements consist of a Balance Sheet, a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These provide information about the activities of Manning Municipal Gas Department as a whole and present an overall view of the Utility's finances.

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis of the Utility

The analysis that follows focuses on the balance sheet classes and changes in the net assets for this business type activity.

Balance Sheet December 31, 2010

Business Type Activity - Enterprise Fund

	<u>Year Ended</u>	
	<u>12/31/10</u>	<u>12/31/09</u>
Current assets	\$ 2,157,467	\$ 2,184,653
Capital assets	599,860	626,721
Other assets	639,234	659,234
Total assets	<u>\$ 3,396,561</u>	<u>\$ 3,470,608</u>
Current liabilities	<u>\$ 97,997</u>	<u>\$ 169,260</u>
Net assets:		
Invested in capital assets	\$ 599,860	\$ 626,721
Restricted	408,560	407,755
Unrestricted	2,290,144	2,266,872
Total net assets	<u>\$ 3,298,564</u>	<u>\$ 3,301,348</u>

Current assets constitute 63% of total assets and exceed current liabilities by twenty-two to one. Capital assets constitute 18% of total assets and represent the cost of infrastructure, buildings and equipment and is reported net of accumulated depreciation. Other assets constitute 19% of total assets and consist of the long term portion of notes receivable from the City of Manning and Manning Municipal Cable and Television System Utility. Net assets decreased by \$2,784 or 0.08% for the year ended December 31, 2010.

Changes in Net Assets
December 31, 2010

Business Type Activity - Enterprise Fund

	<u>Year Ended</u>	
	<u>12/31/10</u>	<u>12/31/09</u>
Revenues:		
Charges for services	\$ 967,818	\$ 1,260,728
Interest income	43,512	69,742
Miscellaneous income	3,894	3,843
Total revenues	<u>1,015,224</u>	<u>1,334,313</u>
Operating expenses:		
Purchased gas	574,061	921,398
Distribution operations	160,944	134,018
Administrative and general	231,564	218,749
Total operating expenses	<u>966,569</u>	<u>1,274,165</u>
Other expenses:		
Depreciation	33,226	34,405
Community contributions	18,213	22,141
Total other expenses	<u>51,439</u>	<u>56,546</u>
Total expenses	<u>1,018,008</u>	<u>1,330,711</u>
Increase (decrease) in net assets	(2,784)	3,602
Net assets, beginning of year	<u>3,301,348</u>	<u>3,297,746</u>
Net assets, end of year	\$ <u><u>3,298,564</u></u>	\$ <u><u>3,301,348</u></u>

Total revenues declined by 24% for the year ended December 31, 2010. The principal factors for this decline are 1) a continuing decline in price due to an abundant supply of natural gas and 2) a decline in demand for natural gas by area farm cooperatives for corn drying in 2010 over 2009. The gross profit on gas sales rose significantly to 39% for 2010 as compared to 27% for both 2009 and 2008. The reason for this is that residential and commercial gas margins are relatively higher than for interruptible and large volume customers. Gas sales to interruptible and large volume customers declined by 37% and 68%, respectively, for the year ended December 31, 2010.

Total expenses also declined by 24% for the year ended December 31, 2010. Purchased gas declined by 38% from December 31, 2009. Distribution operation expenses increased by 20% or \$26,926 primarily due to repairs and maintenance expenses made to an aging gas distribution infrastructure. Administrative and general expenses increased by \$12,815 mostly due to a 20% increase in the cost of group health insurance on the Utility's four employees.

As a result of the above mentioned factors, the Gas Department experienced a \$2,784 decrease to net assets for the year ended December 31, 2010 as opposed to a \$3,602 increase to net assets for the year ended December 31, 2009.

Budgetary Highlights

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of Manning Municipal Gas Department for the period July 1, 2009 to June 30, 2010.

The following schedule compares the business type activity, which includes the Gas Department's budget and actual receipts and disbursements using the cash basis of accounting for the year July 1, 2009 to June 30, 2010.

<u>Business type activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variable (Un)Favorable</u>
Cash Receipts	\$ <u>2,500,000</u>	\$ <u>1,334,313</u>	\$ <u>(1,165,687)</u>
Cash Disbursements	\$ <u>2,500,000</u>	\$ <u>1,330,711</u>	\$ <u>1,169,289</u>

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2010 did not exceed the final statutory budget.

Future Financial Statement Impact

Natural gas prices continue to be moderate as of December 31, 2010. The major gas project for 2011 will be the installation of gas lines around the City's Light Plant at the Light Utility's expense.

Requests for Information

Requests for additional information can be made to the Manning Municipal Gas Department's manager, Ken Spies, 715 Third Street, Manning, Iowa 51455.

Basic Financial Statements

Exhibit A

**Manning Municipal Gas Department
Balance Sheets
December 31, 2010 and 2009**

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets		
Unrestricted		
Cash	\$ 28,048	\$ 134,961
Investments	1,425,654	1,283,633
Accounts receivable, net of allowance	64,858	100,791
Unbilled usage	84,838	95,491
Accrued interest receivable	20,834	34,710
Inventory	100,991	103,853
Prepaid expenses	3,684	3,459
Notes receivable, other municipal departments - current portion	<u>20,000</u>	<u>20,000</u>
Total unrestricted current assets	<u>1,748,907</u>	<u>1,776,898</u>
Restricted		
Customer deposits	8,560	7,755
Investments	<u>400,000</u>	<u>400,000</u>
Total restricted current assets	<u>408,560</u>	<u>407,755</u>
Total current assets	2,157,467	2,184,653
Property and Equipment		
Land, plants and mains	1,228,596	1,223,631
Warehouse	68,861	67,461
Shop equipment	102,806	102,806
Office equipment and fixtures	42,191	42,191
Office improvements	36,084	36,084
Transportation equipment	61,558	61,558
Border station	<u>16,232</u>	<u>16,232</u>
	1,556,328	1,549,963
Less accumulated depreciation	<u>956,468</u>	<u>923,242</u>
Total property and equipment	599,860	626,721
Other Assets		
Notes receivable, other municipal departments net of current portion	<u>639,234</u>	<u>659,234</u>
Total assets	\$ <u>3,396,561</u>	\$ <u>3,470,608</u>

See accompanying notes to financial statements

Exhibit A
Continued

Manning Municipal Gas Department
Balance Sheets
December 31, 2010 and 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	\$ 72,835	\$ 131,997
Customer credits	364	16,255
Accrued vacation and sick leave payable	12,196	11,272
Sales and use taxes payable	3,375	1,327
Property taxes payable	667	654
Total payables from unrestricted current assets	<u>89,437</u>	<u>161,505</u>
Payable from restricted current assets:		
Customer deposits	<u>8,560</u>	<u>7,755</u>
Total current liabilities	<u>97,997</u>	<u>169,260</u>
Net Assets		
Invested in capital assets, net of related debt	599,860	626,721
Restricted for:		
Customer deposits	8,560	7,755
Capital improvement	100,000	100,000
Depreciation	300,000	300,000
Unrestricted	<u>2,290,144</u>	<u>2,266,872</u>
Total net assets	<u>3,298,564</u>	<u>3,301,348</u>
Total liabilities and net assets	<u>\$ 3,396,561</u>	<u>\$ 3,470,608</u>

See accompanying notes to financial statements

Exhibit B

**Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Net Assets
For the years ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Gas sales		
Residential	\$ 519,648	\$ 529,306
Commercial	217,462	216,030
Interruptible	90,571	144,629
Large volume	116,722	367,865
Total gas sales	<u>944,403</u>	<u>1,257,830</u>
Merchandise sales, net of cost	15,678	1,039
Service calls	710	595
Other revenue	7,027	1,264
Total	<u>23,415</u>	<u>2,898</u>
Total operating revenue	<u>967,818</u>	<u>1,260,728</u>
Operating Expenses		
Purchased gas	574,061	921,398
Distribution expenses		
Management labor	34,055	35,538
Line labor	79,865	75,214
Chemicals	-0-	3,234
Maintenance materials and supplies	33,327	10,092
Transportation and freight	9,037	5,850
Education	170	269
Miscellaneous	4,490	3,821
Total distribution expenses	<u>160,944</u>	<u>134,018</u>
Administrative and general expenses		
Advertising	-0-	121
Bad debts	759	393
Depreciation	33,226	34,405
Dues	10,149	5,928
Group insurance	51,583	42,986
Insurance - general	11,369	10,065
Integrity management	190	-0-
Maintenance - copiers and computers	3,777	4,304
Meeting and travel	80	245
Miscellaneous	6,438	6,491
Manager labor	35,432	36,410

Exhibit B
Continued

Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Net Assets
For the years ended December 31, 2010 and 2009

Operating Expenses - continued		
Administrative and general expenses - continued		
Office labor	\$ 42,958	\$ 43,005
Office supplies and maintenance	3,187	2,946
Official publications	901	733
Payroll taxes	14,434	14,329
Retirement contributions	12,368	11,860
Professional services	9,367	13,710
Real estate taxes	679	679
Rebate program/comfort plus homes	6,370	4,330
Safety	279	132
Trustees	2,995	2,995
Utilities, rent, city assessment	18,249	17,087
Total administrative and general expenses	<u>264,790</u>	<u>253,154</u>
Total operating expenses	<u>999,795</u>	<u>1,308,570</u>
Operating income (loss)	(31,977)	(47,842)
Non-operating Revenues (Expenses)		
Interest income	43,512	69,742
Miscellaneous income	3,894	3,843
Contribution - Housing Rehab Project	(2,167)	(4,013)
Contribution - Economic Development	(14,250)	(13,000)
Contribution - Project Trees	(250)	(250)
Contribution - Home Fitness Program	(1,546)	(4,878)
Net non-operating revenues (expenses)	<u>29,193</u>	<u>51,444</u>
Changes in net assets	(2,784)	3,602
Net assets, beginning of year	<u>3,301,348</u>	<u>3,297,746</u>
Net assets, end of year	\$ <u>3,298,564</u>	\$ <u>3,301,348</u>

See accompanying notes to financial statements

Exhibit C

**Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2010 and 2009**

	2010	2009
Cash Flows From Operating Activities:		
Cash received from customers	\$ 998,513	\$ 1,327,020
Cash payments for goods and services	(828,723)	(1,013,903)
Cash payments to employees	(191,386)	(190,932)
Net cash provided by operating activities	(21,596)	122,185
Cash Flows From Capital and Related Financial Activities:		
Non operating income received	3,894	3,843
Change in customer deposits	805	130
Acquisition and construction of capital assets	(6,365)	(27,786)
Net cash used for capital and related financing activities	(1,666)	(23,813)
Cash Flows From Investing Activities:		
Interest received	57,388	83,730
Community contributions	(18,213)	(22,141)
Note advanced	-0-	(200,000)
Note payments received	20,000	20,766
Net cash used for investing activities	59,175	(117,645)
Net increase in cash	35,913	(19,273)
Cash, Beginning of year	1,826,349	1,845,622
Cash, End of year	\$ 1,862,262	\$ 1,826,349

See accompanying notes to financial statements

Exhibit C
Continued

Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities:		
Operating Income	\$ (31,977)	\$ (47,842)
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	33,226	34,405
Net (increase) decrease in:		
Accounts receivables and unbilled usage	46,586	52,945
Inventories	2,862	77,772
Prepaid expenses	(225)	(87)
Net increase (decrease) in:		
Accounts payable	(59,162)	(7,616)
Accrued wages and vacation payable	924	(765)
Customer credits	(15,891)	16,256
Sales tax payable	2,048	(2,909)
Other accrued expenses	13	26
Net cash provided by operating activities	\$ <u>(21,596)</u>	\$ <u>122,185</u>
Reconciliation of cash and cash equivalents at		
year end to specific assets included on the		
Balance Sheet		
Current assets:		
Cash	\$ 28,048	\$ 134,961
Investments	1,425,654	1,283,633
Restricted assets:		
Depreciation reserve	300,000	300,000
Capital improvements	100,000	100,000
Customer deposits	8,560	7,755
Total cash	\$ <u>1,862,262</u>	\$ <u>1,826,349</u>

See accompanying notes to financial statements

Notes to Financial Statements

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Manning Municipal Gas Department is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Gas Department is governed by a five member board of trustees appointed by the City Council. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Manning Municipal Gas Department has no component units which meet the Governmental Accounting Standards Board (GASB) criteria.

The financial statements include only those funds of the Gas Department and are not intended to present all funds of the City of Manning, Iowa.

B. Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. Utility officials are members of the following boards: Manning Municipal Communication and Television System Utility, Manning Betterment Foundation, and Manning Economic Development Corporation, Templeton Manning Joint Gas Service Utility Board, Aspinwall Manning Joint Gas Service Utility Board, Iowa Municipal Utilities Association, Clayton Energy Buying Group, and American Public Gas Association.

C. Nature of Business

Formed as a Utility in 1961, the Manning Municipal Gas Department distributes natural gas to the residents and businesses of Manning, Iowa. In 1992, the Gas Department expanded distribution to Templeton, Iowa and, in 1997, to Aspinwall, Iowa. The Utility's revenues are dependent upon the economic condition of its residential and commercial customers.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009**

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund of the Gas Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility Board's principal ongoing operations. The principal operating revenues of the Gas Department are charges to customers for sales and service. Operating expenses for the Gas Utility include the cost of sales and services, administration expenses and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

The Gas Department maintains its accounting records on the basis of cash receipts and disbursements. For financial reporting purposes, accruals are recorded in conformity with U.S. generally accepted accounting principles.

The Balance Sheet presents the Gas Department's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those capital assets.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Restricted net assets result when constraints placed on the use of net assets are externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the criteria of the two preceding categories. Unrestricted net assets often have constraints on resources that management can remove or modify.

E. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis. The budget of the Utility is submitted with that of the City of Manning following required public notice and hearing. The budgetary comparison and related disclosures are reported as part of the basic financial statements rather than as Required Supplementary Information.

F. Cash and Cash Equivalents

Cash consists of checking accounts, cash on hand, and savings. Investments consist of certificates of deposit. For purposes on the Statement of Cash Flows, the Gas Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

G. Accounts Receivable

Accounts receivable are presented at their net realizable values. The allowance for doubtful accounts is \$612 at December 31, 2010 and 2009.

Customer meters are read monthly. Manning customers are billed the 1st of the month and Templeton, Aspinwall and AGP customers are billed on the 13th of each month. Collection procedures are determined by Commerce Commission Rules as follows: normal customers have twenty days to remit payment whereas budget plan customers have thirty days. No surcharges or interest charges are added to delinquencies. Shut off procedures also differ by season: April 1st through October 31st favor the Utility while November 1st through March 31st favor the customer.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009**

(1) Summary of Significant Accounting Policies (Continued)

H. Unbilled Usage

The Utility estimates unbilled usage by prorating the total billing based on the number of days still in the accounting period versus the total number of days in the billing period.

I. Inventory

Material and supplies are valued at the lower of cost or market on a per item basis. Gas inventory is valued at the weighted average cost of gas per MMBtu's in storage.

J. Restricted Assets

The Utility includes in restricted assets those amounts received from customers as deposits on their gas accounts. Other restricted assets include amounts set aside as a Depreciation and Capital Improvement Reserve.

K. Capital Assets

Capital assets include property, plant and equipment. Capital assets are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. The Utility records a half year's depreciation in both the year of acquisition and retirement and is computed over the following useful lives:

Plant and mains	30-40 years
Office and shop equipment	5-10 years
Vehicles	5 years
Warehouse and office improvements	20 years
Border station - odorizer	20 years

Expenses for maintenance, repairs and minor replacements are charged to operations. Expenses for major repairs and betterments are charged to property, plant and equipment accounts.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies (Continued)

L. Customer Deposits

Meter deposits are collected from new customers before they are hooked up to the gas line. Customers in good standing are eligible to receive a deposit refund after one year.

M. Operating Revenues

Revenues are based on billing rates applied to customer usage. Meters are read monthly. Western Consulting Inc, calculates the rate to charge per MCF on a monthly basis.

N. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financials statements, no material changes to the estimates used therein were anticipated by management in the near term.

(2) Cash and Investments

The Utility Board's deposits in banks at December 31, 2010 and 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Utility Board is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(2) Cash and Investments (Continued)

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the need and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No 40.

The Utility's cash and investments at December 31, 2010 and 2009 are as follows:

	<u>Cash</u>	<u>Certificates of Deposit</u>
December 31, 2010		
Unrestricted	\$ 28,048	\$ 1,425,654
Restricted	8,560	400,000
	<u>\$ 36,608</u>	<u>\$ 1,825,654</u>
December 31, 2009		
Unrestricted	\$ 134,961	\$ 1,283,633
Restricted	7,755	400,000
	<u>\$ 142,716</u>	<u>\$ 1,683,683</u>

(3) Restricted Assets

The Board of Trustees established by resolution, various reserve account funds to accumulate surplus net revenue for the following purposes:

	<u>2010</u>	<u>2009</u>
Customer Deposits - Cash	\$ 8,560	\$ 7,755
Depreciation Reserve - Certificates of Deposit	300,000	300,000
Capital Improvement Reserve - Certificate of Deposit	<u>100,000</u>	<u>100,000</u>
	<u>\$ 408,560</u>	<u>\$ 407,755</u>

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(4) Capital Assets

Capital assets activity for the year ended December 31, 2010 is summarized as follows:

	Balance 12/31/09	Additions	Deletions	Balance 12/31/09
Land	\$ 2,500	\$ -0-	\$ -0-	\$ 2,500
Plants and mains	1,221,131	4,965	-0-	1,226,096
Warehouse	67,461	1,400	-0-	68,861
Shop equipment	102,806	-0-	-0-	102,806
Office equipment	42,191	-0-	-0-	42,191
Office improvements	36,084	-0-	-0-	36,084
Transportation	61,558	-0-	-0-	61,558
Border station	16,232	-0-	-0-	16,232
	<u>1,549,963</u>	<u>6,365</u>	<u>-0-</u>	<u>1,556,328</u>
Less: accumulated depreciation	<u>923,242</u>	<u>33,226</u>	<u>-0-</u>	<u>956,468</u>
Capital assets, net	\$ <u>626,721</u>	\$ <u>(26,861)</u>	\$ <u>-0-</u>	\$ <u>599,860</u>
Depreciation charged to operations				\$ <u>33,226</u>

(5) Related Party Transactions

<u>Water Tower Note</u>	<u>2010</u>	<u>2009</u>
Unsecured note receivable from the City of Manning, due in annual installments of \$20,000 plus interest until principal is paid on October 1, 2018. The interest rate is adjusted each October 1 st to 1% higher than the maximum rate offered by Templeton Savings Bank on a twelve month certificate of deposit. The note financed water tower construction and repairs. The interest rate on October 1, 2010 was 2.55%.	\$ 159,234	\$ 179,234

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009**

(5) Related Party Transactions (Continued)

<u>MMCTSU Note</u>	<u>2010</u>	<u>2009</u>
Note receivable from the Manning Municipal Communications and Television System Utility to be used for broadband communications system. The interest rate is adjusted on July 15 th each year to a rate which is 1% higher than that offered by Templeton Savings Bank on a twelve month certificate of deposit. The interest rate on July 15, 2009 was 2.55%. Interest does not accrue on the unpaid interest balance, there are no required principal payments, and payments of principal and interest may not exceed \$100,000 per year.	\$ <u>500,000</u>	\$ <u>500,000</u>
	659,234	679,234
Less: current portion	<u>20,000</u>	<u>20,000</u>
Long-term portion	\$ <u><u>639,234</u></u>	\$ <u><u>659,234</u></u>

Municipal Officials

For the year ended December 31, 2010, the Manning Municipal Gas Department paid businesses owned by employees or officials of the Gas Utility for the following:

	<u>2010</u>	<u>2009</u>
Truck repairs	\$ 447	\$ 1,696
Supplies	575	386
Fuel and truck repairs	<u>510</u>	<u>1,930</u>
	\$ <u><u>1,532</u></u>	\$ <u><u>4,012</u></u>

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(6) Compensated Absences

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, which is equivalent to an average pay period. Sick leave benefits are calculated at their current rate of pay. Unused sick leave benefits will be allowed to accumulate until the employee has accrued a total of 88 hours of sick leave benefits in a twelve month period. Unused sick leave benefits will be paid to employees, if eligible, on the employee's anniversary date or upon termination of employment. Sick leave payable at December 31, 2010 and 2009 was \$5,935 and \$2,180, respectively.

Employees accrue vacation benefits beginning on the employee's hire date. Vacation time off is paid at the employee's base rate at the time of vacation. In the event that available vacation is not used by the end of the benefit year, employees will forfeit the unused time. Upon termination of employment, employees will be paid for unused vacation time that has been accrued through the last day of employment. Vacation payable at December 31, 2010 and 2009 was \$6,261 and \$9,050, respectively.

(7) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Through June 30, 2010, plan members were required to contribute 4.30% of their annual covered salary and the Utility was required to contribute 6.65% of annual covered payroll. Effective July 1, 2010, the IPERS rates changed and plan members contributed 4.50% of their annual covered salary and the Utility contributed 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2010, and 2009 were \$12,368 and \$11,819, respectively, equal to the required contributions for each year.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(8) Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and -0- retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utility and plan members are \$720 for couple coverage and \$1,060 for family coverage. The same monthly premiums apply to retirees. For the year ended December 31, 2010, the Utility contributed \$51,583 and plan members eligible for benefits contributed -0- to the plan.

(9) Purchase Commitment

In 1993, Manning Municipal Gas Department entered into an agreement with Clayton Energy Corporation of Wahoo, Nebraska whereby Clayton will act as an independent contractor and purchase gas on behalf of the Utility. In September 1995, an addendum was made to this agreement which reiterated the primary term of the agreement to run through October 1996, and extended the secondary terms to run for three years unless terminated one year and ninety days prior to the commencement of any secondary term. The agreement is now open ended and continues to run unless either party gives notification to make a change.

(10) Long Term Transportation Agreement

The Manning Municipal Gas Department entered into a long term transportation contract with Ag Processing Inc. (AGP) to transport gas from Northern Natural's town border station to AGP's Manning, Iowa plant for .15 cents per MMBtu plus a \$100.00 monthly fee for a period of seven years ending November 1, 1998. This contract now continues on a year to year basis at the same rates.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009

(11) 28E Agreement

The Board of Trustees approved on September 13, 2007 to enter into an agreement under Iowa Code Chapter 28E to establish an agency to be known as the Public Energy Financing Authority, an Iowa Joint Powers Agency. The purposes of the Agency are to acquire and procure energy resources, or the rights to acquire thereto, including in particular natural gas and electric energy, and to provide for the transportation, transmission, distribution, sale and/or storage thereof in and to each member's service area.

(12) Budgetary Comparison

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of the Manning Municipal Gas Department for the period July 1, 2009 to June 30, 2010.

The Utility Board also adopts a budget annually as required by Iowa law. The budgetary comparison that follows presents the business type activity of the Gas Department as reported in the City of Manning's Annual Report for the period from July 1, 2009 through June 30, 2010.

<u>Business type activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variable (Un)Favorable</u>
Cash Receipts	\$ <u>2,500,000</u>	\$ <u>1,334,313</u>	\$ <u>(1,165,687)</u>
Cash Disbursements	\$ <u>2,500,000</u>	\$ <u>1,330,711</u>	\$ <u>1,169,289</u>

The disbursements may not legally exceed budgeted appropriations at the functional level. Actual cash disbursements for the year ended June 30, 2010 did not exceed the final statutory budget.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2010 and 2009**

(13) Risk Management

Manning Municipal Gas Department is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(14) Contingencies and Uncertainties

The Utility provides health care benefits to employees under a self insurance, reinsured plan. The Company's maximum exposure for 2010 under the re-insurance plan is approximately \$14,000.

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Prepared in Accordance with
*Government Auditing Standards***

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

February 10, 2011

Lonnie G. Muxfeldt
Certified Public
Accountant

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Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on and Audit of
Financial Statements Prepared in Accordance with
Government Auditing Standards

To the Board of Trustees of the
Manning Municipal Gas Department

I have audited the accompanying financial statements of the Manning Municipal Gas Department as of and for the year ended December 31, 2010, and have issued my report thereon dated February 10, 2011. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Manning Municipal Gas Department's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the Schedule of Findings, I identified a certain deficiency in internal control over financial reporting that I consider to be a material weakness.

February 10, 2011
Manning Municipal Gas Department
Report on Internal Control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Manning Municipal Gas Department's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-A-10 to be a material weakness.

A significant deficiency is a control deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manning Municipal Gas Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on test and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Manning Municipal Gas Department's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the Utility's responses, I did not audit the Gas Department's responses and, accordingly, I express no opinion on them.

February 10, 2011
Manning Municipal Gas Department
Report on Internal Control

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Manning Municipal Gas Department and other parties to whom the Utility may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Manning Municipal Gas Department during the course of my audit. Should you have any questions concerning any of the above matter, I shall be pleased to discuss them with you at your convenience.

Murphy Associates, CPA, P.C.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2010**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that a segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will try to use the staff in the most efficient way to achieve maximum internal control possible with the staff available.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2010**

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Certified Budget - Total disbursements during the year ended June 30, 2010, did not exceed the amounts budgeted. The Utility adopts an annual budget on the City of Manning's fiscal year ended June 30th.
- II-B-10 Questionable Disbursements - I noted no disbursements for parties, banquets, or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-10 Travel Expense - No disbursements of Municipal Utility's money for travel expenses of spouses of Municipal Utility's officials or employees were noted.
- II-D-10 Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Ken Spies, Spies Fur Co.	Supplies	\$ 575
Robert Ehlers, Manning Motor	Vehicle repairs	\$ 447
Allen Rix, BP Amoco	Fuel	\$ 510

The transactions with the Utility's Trustees and management don't appear to represent conflicts of interest since they did not exceed \$2,500 during the year.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2010**

Part II: Other Findings Related to Statutory Reporting (Continued):

II-E-10 Bond Coverage - Surety bond coverage of Municipal Utility's officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-10 Deposits and Investments - The Utility had a certificate of deposit held in a depository outside the state. Chapter 12C of the Code of Iowa requires Utility deposits be held in depositories located in the county in which the Utility is located or in an adjoining county, but if there is no depository in the county in which the Utility is located or in an adjoining county, then in any other depository located in this state which shall be selected as a depository by the Board of Trustees.

Recommendation - The Utility should only deposit funds in allowable depositories.

Response - We will review and follow our policies and deposit only in allowable depositories.

Conclusion - Response accepted.

II-G-10 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not. It was noted, however, that the board of trustee minutes were not signed for the year.

Recommendation - Minutes should be signed by the secretary of the board of trustees when the minutes are approved.

Response - We will sign the minutes when approved as suggested.

Conclusion - Response accepted.

